Planning Technique

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Hearty congratulations to Mr Arvind Panagariya for taking over the reins of Niti Aayog, the reincarnation of the Planning Commission of India, which had dominated and distorted Indian Public Financial System for over six decades. As the newly appointed Vice Chairman of its new avtar, Mr Panagariya would have his hands full. We wish him good luck in first cleansing the system of the numerous aberrations that have crept into it during the past six decades and then driving it towards achieving real growth for the country. Thankfully, he comes with the belief that it is growth that has the potential to lift millions out of poverty by creating wealth and generating employment, as opposed to the sops and doles that was the guiding philosophy of the previous regime.

The Union Budget 2014-15 had earmarked Rs 575,000 crore as plan expenditure on various programmes and schemes targeted towards alleviation of poverty, creation of employment and for providing basic public services like education, healthcare, nutrition, drinking water and sanitation to the people of the country. These programmes include the 17 flagship welfare schemes like NREGA, on which lakhs of crores of rupees are being spent every year, without much visible improvement in the ground. Mr Panagariya will have to transform Niti AAyog into an effective instrument for monitoring and evaluating the implementation of these programmes. On this primarily will depend whether NITI Aayog truly becomes what its name suggests - the **N**ational **I**nstitution for **T**ransforming **I**ndia.

Mr Panagariya would do well to begin by dusting off the Report of the "High Level Expert Committee on Efficient Management of Public Expenditure" which was appointed by the UPA government under the Chairmanship of Dr. C Rangarajan. The Committee had submitted its report in July 2011, but the Manmohan Singh Government had preferred to put it in cold storage, obviously because acting on the report would have meant undoing and unravelling the welfarist agenda of the Congress party. The most important recommendation in the report was to abolish the distinction between plan and non-plan expenditure. Acting on it would have meant reducing the importance of the Planning Commission by removing the emphasis on welfare-oriented plan schemes of the Government. Planning Commission then would have been rendered powerless to allocate national resources under the guise of these plan schemes and confined only to the task of formulating five-year plans. The regime, which believed that its electoral fortunes depended entirely on its ability to extend the benefits of doles and subsidies to the widest possible sections of voters, would naturally be loath to act upon such heretical recommendations.

The Rangarajan Committee Report had recommended, “Over a period of time, several issues have cropped up from the distinction between plan and non-plan, making it dysfunctional and an obstacle in outcome based budgeting. Therefore, this distinction should go for both union and state budgets. On removal of plan/non-plan distinction in the budget, there should be a fundamental shift in the approach of public expenditure management - from a segmented view of plan and non-plan to holistic view of expenditure; from a one-year horizon to a multi-year horizon; and from input based budgeting to the budgeting linked to outputs and outcomes. This shift to holistic view of expenditure would require*, inter alia*, changes in organizational structure, mandates and processes.” These changes in the organisational structure of agencies concerned with the delivery of developmental programmes and the necessary reengineering of the governmental processes and procedures have not happened so far.

In fact, the distinction between plan and non-plan expenditure has caused many more problems than mere segmentation of expenditure into the arbitrary ‘plan non-plan’ classifications, fostering a rather limited and fragmented view of resource allocation. The Report noted that such classification has given rise to an inherent bias in favour of plan expenditure and against non-plan expenditure among the policy makers and officials across all levels, and enforced a notion that plan expenditure was good and non-plan expenditure was bad. This has led to a situation where the non-plan expenditure essential for the maintenance of valuable assets like roads, project assets, buildings and assets for delivery of public goods and services created under the various plan schemes have systematically been neglected over the years, leading to progressive deterioration in the quality of public services. “This has also led to a motivation for showing higher plan expenditure and higher plan sizes both at Central and State levels”, the Report had observed.

Besides the poor quality of information that went into the making of successive plans, other problems in budget and accounting classification, inadequate information on transfers of resources to the states, unreliable and dated information on costing of services and the far from perfect Central Plan Scheme Monitoring System (CPSMS) generated data have always plagued our system of resource allocation, appraisal and monitoring of expenditure on plan schemes. These problems still remain unresolved and unless effectively addressed, would continue to cause sub-optimal utilisation of resources and short-delivery of outcomes. Removing the plan non-plan distinction and realigning the budget and accounting classification would be the first step towards restoring sanity in our public financial system.

Once this distinction is removed, many things will automatically fall in place, and some others will have to be corrected, like rationalisation of the endless mechanisms devised to finance the plethora of our plan projects. A bewildering variety of these exists now: Normal Central Assistance for central plans and state plans, Additional Central Assistance for centrally sponsored schemes, Additional Central Assistance for externally assisted projects, Additional Central Assistance for programmes funded by the Ministry of Finance but implemented by other

Departments/ Ministries, Special Central Assistance for special programmes, Advance Central Assistance for special and exceptional situations – in fact there are so many of them that normal human brain will falter to grasp their astounding numbers and complexities. Till 2013-14, there were *only* 137 centrally sponsored schemes. Some semblance of reason was later sought to be brought in by restructuring these into 66 schemes, including the 17 Flagship programmes with significant outlays, for the remaining years of the ongoing 12th Plan (2012-17). It was also decided to abolish the direct transfer of funds for centrally sponsored schemes to agencies that were implementing these schemes in the states without routing the funds through their budgets. But much more needs to be done, in terms of integrating and streamlining these programmes further by co-ordinating, monitoring and directing their deliveries towards specific, target-oriented and time-bound outcomes. A suitable accountability architecture which is missing also needs to be created.

The newly formed NITI Aayog is supposed to replace the erstwhile one-way flow of policy from the Centre to states by 'a genuine and continuing partnership'. It has been created with 13 laudable objectives, while acknowledging that we need to find and adopt our own strategy for growth, without depending on imported models. The objectives include providing a framework 'national agenda' to 'foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong states make a strong nation'. The Ayyog is to develop mechanisms to formulate credible plans at the village level and aggregate these plans progressively at higher levels of government. The objectives also include designing strategic and long-term policies and programmes, monitoring and evaluating their implementation and progress, and identification of required resources for strengthening delivery while focussing on technology upgradation and capacity building. Strangely, there is no clarity or indication about how all these will be achieved and nature of the institutional mechanisms necessary or the changes that need to be effected in order to achieve the goals. The only machinery it hints is a Governing Council comprising Chief Ministers of all the states and Lieutenant Governors of all union territories; that will automatically render the existing National Development Council (NDC) defunct. There will also be Regional Councils to address issues specific to the regions. There is no guarantee that a Governing Council represented by all states and union territories would be more effective than the NDC even without the overbearing presence of a Planning Commission. Regional Council would be a more appropriate forum for evolving a consensus-based policy. However, keeping with the spirit of the 73rd amendment to the Constitution, a bottoms-up planning process has now been institutionalised.

Like its predecessor, NITI Aayog also does not have any constitutional status and has been envisaged to act only as a think tank of the Government, but in reality will remain a political body of the ruling dispensation, like its predecessor. What role it will discharge and what purpose it will serve remain to be seen, but the lack of constitutional legitimacy, absence of an accountability structure and the inherent political nature of the Aayog may present obstacles in the way of its effective functioning. Mr Panagariya will need all the wisdom and tact at its disposal to ensure that NITI AAyog transcends these limitations and is truly perceived as an institution for generating ideas and innovations necessary for transforming a lower middle-income country like India (above per capita income US$ 2074, 2013, World Bank) into an upper middle-income country (per capita income US$ 7598) within the next decade. For its intended transformational role, however, the bloated bureaucratic machinery it has inherited from the Planning Commission may prove to be dysfunctional unless trimmed.